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PASS TO S/SRAP AMBASSADOR HOLBROOKE FROM CHARGE' D' AFFAIRES HURTADO

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SUBJECT: SCENESETTER FOR SPECIAL REPRESENTATIVE HOLBROOKE

CLASSIFIED BY: L. Victor Hurtado, Charge d'Affaires, State, Embassy  
Muscat; REASON: 1.4(B), (D)

#### INTRODUCTION

11. (C) Special Representative Holbrooke: Embassy Muscat and I warmly welcome you to Oman, one of our oldest friends in the region. We have requested a meeting with Sultan Qaboos bin Said al Said. You will find the Sultan is an engaging interlocutor. He is an intellectual whose interests range widely. You will find him greatly concerned about the situation in Pakistan, less so about Afghanistan. As the second-longest serving Arab ruler (39 years), the Sultan remains an invaluable source of advice and can be helpful in advancing U.S. interests in the region for the foreseeable future. In keeping with the traditions of Ibadhi Islam and of the Al Sa'id sultans, he has no designated successor. The Sultan often begins discussions with visitors on a matter unrelated to issues at hand. In his audiences with senior USG officials, he has been generous with his time.

#### BILATERAL RELATIONSHIP

12. (C) One of our oldest and most dependable friends in the region, Oman remains a valued ally. This year marks the 175th anniversary of the U.S.-Oman "Treaty of Amity and Commerce," second oldest in the Middle East and North Africa. Economic cooperation has grown even stronger more recently with implementation of the U.S.-Oman Free Trade Agreement on January 1 of this year. In 2009, we will begin negotiations on renewal of our bilateral Base Access Agreement which, when originally signed in 1980, was unprecedented (and highly criticized) in the region. Despite our strong record of cooperation with Oman, however, we do not always share the same views, particularly with regard to Iran where the Omanis see a manageable threat.

#### PAKISTAN

13. (C) Oman has a good relationship and strong historical ties with Pakistan. Over 20 percent of Omanis are of Baluchi origin from Pakistan's Baluchistan province. Most Baluchi families settled in Oman over 100 years ago. Gwadar, located on the southwestern coast of Pakistan, a traditional Baluchi enclave, fell under Omani rule until it was transferred to Pakistan in 1958. A significant number of Pakistan laborers reside in Oman, but historically, illegal immigration from Pakistan has been a source of concern for the Sultanate. Recent regional media reports revealed that a Muscat entrepreneur had ties to Lashkar-e-Taiba and the Mumbai terror

attacks.

14. (C) While Oman is growing increasingly concerned over instability in Pakistan, it is steadfast in noting that Pakistan must take the bulk of responsibility for its humanitarian crisis. Nevertheless, according to the Ministry of Foreign Affairs (MFA), Oman has provided "millions of dollars" for humanitarian assistance projects in Pakistan, particularly for reconstruction efforts in Baluchistan following the devastating earthquake there in 2008. Although Oman's project assistance may be rather modest in GCC terms (Its oil reserves are limited, and expensive to extract and refine.), it is quite substantive in terms of Omani capacity. Oman typically shies away from providing assistance and budget support to large-scale projects and global funds, citing concerns over corruption and lack of oversight. Instead it prefers to invest in smaller projects directly impacting communities, i.e., hospitals, schools, community centers. In a break from tradition, Oman recently pledged, \$3 million in direct budget support to the Palestinian Authority, citing Secretary of State Clinton's request and other assurances about budget integrity.

15. (C) Oman's Minister Responsible for Foreign Affairs Yousuf bin Alawi bin Abdallah (YBA) told former Ambassador Grappo that victory by Pakistani forces over factions in tribal areas was patently "unachievable;" the best the Pakistani government could hope for was some *modus vivendi* in which tribal groups were granted a form of autonomy in exchange for closer security cooperation and a pledge to keep terrorists and other extremists out. Posing further challenges, in Oman's view, is the lack of confidence in Pakistani President Zardari (especially by the military), worries over the ruling party's ability to stay in control, a looming economic crisis and consequent fear of another army take-over.

16. (C) Several Omani ministers, including Bin Alawi, expressed their views on the U.S.-Afghanistan-Pakistan relationship during Ambassador Grappo's farewell calls. Bin Alawi counseled that in formulating a strategy, the U.S. must take care to separate Al Qaeda from the Taliban. The former doesn't speak for the latter but essentially seeks to use the Taliban to further its aims worldwide. The Taliban has no interests outside of Pakistan and Afghanistan. Another Minister underscored the importance of U.S. military might in confronting the Taliban but also urged that we formulate a "social marketing" program to convince Pakistanis in the tribal areas to abandon the "backward ideology" of the Taliban. He suggested employing respected moderates and getting them the necessary "air time" to voice moderate views to Pakistanis and Afghans. Each of the Ministers referred to "chaos" in the region in the event of a Taliban incursion into Islamabad, however short-lived

#### AFGHANISTAN

17. (C) Bin Alawi has characterized the situation in Afghanistan as "the real problem" for the region. As expressed to the Ambassador, bin Alawi believes that a gradual increase in the size of U.S. forces in Afghanistan would give the Taliban and Al Qaeda elements "time to adapt" and has accordingly recommended a quick deployment of all necessary troops. He has also stressed that the U.S. needs to vigorously address economic and social issues in Afghanistan so as to win the support of Afghan tribes and convince them to build a coalition to combat the Taliban and Al Qaeda. Bin Alawi has stated that he is "losing confidence" in President Karzai for failing to clamp down on rampant corruption and for not doing enough to unite factional groups.

18. (C) While concerned about Afghanistan, Oman does not see itself

as having important national interests there and has politely declined our requests to help fund the expansion of the Afghan National Army. The MFA asserts that Oman has discretely funded about a dozen assistance projects in Afghanistan; the Director of the Ministry's West Asian Affairs Department told the DCM that the Sultanate has donated \$7 million to build schools and provide other aid.

#### MIDDLE EAST PEACE

¶9. (C) Oman has long supported, albeit quietly, efforts to peacefully resolve the Israeli-Palestinian conflict through the establishment of an independent Palestinian state. Reflecting its independent foreign policy, Oman was one of only two Arab states (the other being Sudan) to refuse to break relations with Egypt following the 1978 Camp David accords. The two most senior Omani diplomats, bin Alawi and MFA Secretary General Sayyid Badr al-Busaidi, periodically talk with officials from both sides, including face-to-face meetings with former Israeli Foreign Minister Livni. Israeli diplomats have made discrete visits to Muscat in recent years. Oman continues to host and chair the Middle East Desalination Research Center (MEDRC), originally established as part of the multilateral track of the peace process in the mid-nineties. Representatives and experts from Israel and Arab countries, in addition to other donor nations, participate in MEDRC-sponsored activities and attend the annual MEDRC Board meeting in Muscat.

¶10. (C) The Omani government is not optimistic on the prospects for achieving a comprehensive peace agreement in the near future. Omani officials blame Israel for continuing settlement expansion and failing to offer meaningful concessions, but recognize that Palestinian political disunity is also at fault for the lack of progress. The U.S. is criticized to a lesser degree for not applying sufficient pressure on Israel to soften its negotiating stance. While encouraged by the Obama administration's early and high-profile attention to the peace process, Oman is worried that the new Israeli government led by Prime Minister Netanyahu may lead to backwards movement in peace talks. Local reaction to Israel's military operations in Gaza in late 2008 was unexpectedly strong; numerous demonstrations (all non-violent) were held throughout Oman.

#### IRAN

¶11. (C) While Omani officials acknowledge U.S. concerns about Tehran's opposition to the peace process, support for terrorism, and nuclear activities, the Sultanate nevertheless enjoys the best working relations with Iran of any GCC state and is careful not to antagonize its neighbor to the north. Omani officials conduct reciprocal visits to Iran and the Omani police and military maintain open channels of communication with their Iranian counterparts on matters of joint concern, such as the smuggling of illegal migrant workers and drugs. While keen to maintain amicable relations with Tehran, Oman has traditionally maintained a comfortable distance from its Persian neighbor. Iranian travel to Oman is carefully scrutinized and controlled. Apart from a few subjects, meaningful bilateral cooperation has been scant while economic and commercial ties are limited. There are indications, however, that both Oman and Iran are trying to strengthen their bilateral relationship. Iran is pushing to increase tourism, trade and investment with Oman, as well as the level of mil-mil cooperation. The Omani government has responded positively, albeit cautiously, to some of these overtures. One factor in Oman's evolving approach towards Iran is natural gas. Oman urgently needs large quantities of gas to fuel its ambitious industrial development plans but its outreach to Saudi Arabia and Qatar for new gas supplies has been rebuffed. The Omanis, similar to the

Bahrainis, thus see Iran as the only realistic source and are accordingly in on-again-off-again protracted talks with Tehran on potentially investing billions of dollars in a project to develop Iran's nearby Kish gas field.

¶12. (C) Foreign Minister bin Alawi has consistently asserted that sanctions against Iran "will not work" and will only strengthen hard-line attitudes in Tehran. He has repeatedly advised the U.S. to initiate direct talks with the Iranian leadership without preconditions. Bin Alawi has publicly stated to the media on several occasions that Iran poses no threat to Oman, and he is adamant that the GCC plus 3 not be used or seen as an anti-Iran forum. For example, he protested strenuously at the most recent GCC plus 3 meeting in Egypt against issuing any kind of statement. Bin Alawi is also quick to dismiss bellicose statements by Iranian President Ahmadinejad and other leaders in Tehran as mere rhetoric designed for internal political consumption. In contrast to bin Alawi, however, the leadership of Oman's military and security services (including the Sultan's top security official and advisor) take a much more pragmatic view about the dangers from Iran. Moreover, Oman's defense posture, including its staging of equipment (e.g., the basing of fighter aircraft away from the threat of an Iranian strike) and acquisition of new military hardware show that it recognizes the risk that Iran poses to regional stability.

¶13. (S/NF) Bin Alawi's views on Iran (as opposed to some other subjects) likely follow those of Sultan Qaboos. The Sultan told Ambassador Grappo last month that Oman had conveyed to ex-president Khatami that the U.S. had clearly extended its hand to Tehran, and it was "now up to Iran to respond." The Sultan asserted that Iran "had to make itself an asset to the region and the world, not a destabilizing factor." At the same time, he cautioned patience. As neither conservatives nor moderates in Iran want relations with the U.S. to become an issue in the June presidential elections, he said that we may not hear anything "meaningful" from Iran before July.

#### YEMEN

¶14. (C) Media coverage of the deteriorating political situation in Oman has been limited, but sources close to the Sultan and actions of Senior Omani officials indicate the Omanis are greatly concerned about its southern neighbor and doing what it can to bolster the prospects of Yemeni leadership. Oman recently withdrew the citizenship of Yemeni separatist Ali Salim al Baidh, citing violation of Omani law. The same weekend, bin Alawi mentioned Yemen in his interview with the Arabic daily 'Al Watan' and confirmed Oman's support for the unity and leadership of Yemen and acknowledging that President Salih and the General People's Congress were doing their "best to continue dialogue." Bin Alawi remarked that Yemen's problems must be dealt with internally and Oman will not interfere.

¶15. (C) Oman invests heavily in Yemen to stabilize its southern border, not only on security but also in terms of humanitarian and commercial engagement. Oman would be sorely tested by affects of severe instability and prolonged tensions are bound to make it more difficult to attract much needed foreign investment and tourism.

#### PIRACY

¶16. (C) Since Oman's most southern port, Salalah, is the first stop after the Gulf of Aden and a "port of refuge," Oman actively monitors efforts to combat piracy and participates in anti-piracy meetings. However, we would like Oman to play a more active role

in coordinating and supporting private security efforts of U.S. flagged vessels. For example, we would like Oman to permit the transit of lethally armed security teams as it does security teams armed with non-lethal equipment.

HURTADO